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*As I see it*

### BUST WE MUST

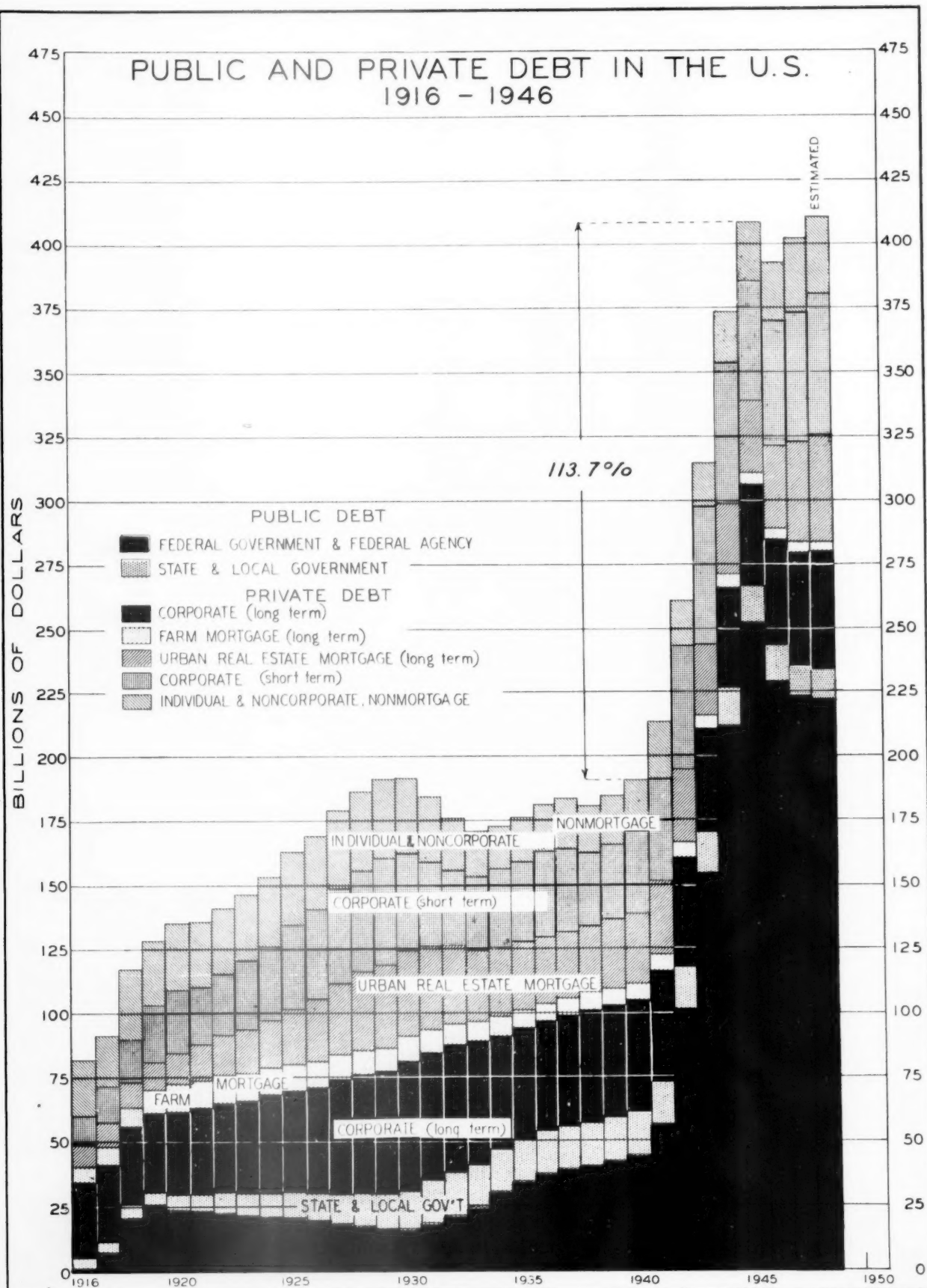
**M**ARRINER ECCLES, former chairman of the Board of Governors of the Federal Reserve System, in testifying before the Senate Committee on Banking and Currency said that he thought a bust was inevitable - that the barn door had been left open so long that probably the horse was gone. Cross-questioning by members of the committee did not make him weaken his statement, later epitomized by the chairman of the committee as "Bust we must."

There is no inherent reason why the continuity of American business should be broken from time to time by great depressions. I certainly would not wish to go on record as one who believes that a fairly stable economy is impossible. In my opinion, booms and depressions are man-made, generally with considerable help from government. I am inclined to agree, however, with Mr. Eccles that it is probably too late now to avoid the consequences of many of our ill-advised government policies during the past fifteen years, and that we will in all probability go through another major depression in the middle fifties.

If we use ordinary common sense in our government and business dealings during the next few years, the greatest threat of inflation is over. The chart on the following page shows public and private debt in the United States from 1916 through 1947, with 1948 estimated. It is true that our estimate for 1948 is very slightly higher than the figure for 1945, and that private debt has been increasing as government debt has been shrinking. I think there is a probability that 1949 will again see the total of public and private debt advance to a point slightly higher than the estimated total for 1948, but the big increases which occurred from 1940 to 1945 (113.7 per cent), the real causes of our present inflation, need not necessarily be repeated in the future. The tremendous increases in that period are the primary reason for the present general inflation.

I think, on the other hand, that it is possible for us during the next few years to embark on a public and private spending spree which may increase total debt by a tremendous percentage and, if we do, there can be little question but that prices will go through the ceiling. In this case, the depression that follows will be the worst on record.

I am in sympathy with the attempts to limit bank credit and to restrict installment buying. I am also in sympathy with all efforts to further restrict credit for real estate at the present time, as the expansion of urban mortgage credit during the past year has been tremendous, probably in excess of six billion dollars.



The legislation on housing passed by the special session of Congress was considerably better than the Taft-Ellender-Wagner Bill. It probably was the best compromise politically feasible at this time. On FHA loans it attempted to decrease the percentage of the loan by limiting the reproduction cost to the cost of December 1947. Present costs are from 5 to 6 per cent higher. Most of its other provisions, however, are still inflationary. It was clearly designed to try to force more housing construction by easy mortgage credit at a time when the industry is employed to capacity.

While Title VI has not been reinstated, the individual home builder or buyer can now get much more liberal treatment under Title II on loans up to \$9,500. Easy credit terms are reinstated for builders of apartments and other rental projects. Investors in housing developments are promised minimum yields on their investments. Prefabricators can be paid for their houses before they are delivered and sold. The mortgage market is to get the support of the RFC in helping to thaw out mortgage lenders who have loaned all available funds.

In my opinion many of the provisions of the new legislation would be fine as stand-by measures to become effective only if residential building volume started to slump badly. To accentuate the boom which has surpassed all previous booms with easy credit is to deepen the depression that will follow with increased failures, bankruptcies, and foreclosures.

The concept of mortgage insurance is not new. Mortgage guaranteeing was a regular function of numerous, but now defunct or reorganized, institutions.

To one who watched real estate during the latter part of the boom of the twenties, who saw the 100 per cent loans made by many of the large bond houses passed on to the public in the form of so-called "gold mortgage bonds," the large percentage loans of the present seem vaguely familiar.

In addition to opposing the attempt to increase building volume with easy mortgage credit at the present time, I am also opposed to supporting agricultural prices at a time when the farmers' income has been pushed to new highs at the expense of urban dwellers. The tremendous quantities of grain now coming on the market, if allowed to find their real price level in a free market, would not only cause prices to drop considerably, but would also eventually carry down the price of meat.

I am in favor of all attempts to limit government spending, as one of the most inflationary elements is an unbalanced national budget financed by the sale of government securities to the banks.

I am not of the opinion that our present budget is unbalanced, as the President in his recent statements would lead us to believe. I am in favor of lowering the support level slightly for government bonds, as I think the price has been pegged by the Federal Reserve at a point considerably above their value. I am in favor of the increase in interest rates on short-term government obligations announced by Secretary of the Treasury Snyder. In view of the risks in lending at the top of a boom, I am in favor of limited deflation, even with the economic ills which it always brings.

It seems to me that we are going to get into serious trouble, particularly in real estate, some time in the middle fifties because . . .

- We can't go on a real binge without a hangover. After the flask is empty it is too late to insist that headaches are unnecessary.

- Our postwar prosperity has been founded on the idea that the destruction of a vast amount of materials during the war and heavy exports now are able in some fashion to result in more to divide and in higher standards of living for all.

- We cannot increase the amount of currency and credit in circulation by six times and expect each unit to have the same purchasing power it had before.

- We can't go further in debt each year for 16 years and insist that the luxuries we bought on borrowed money represent a permanent increase in our standards of living, nor can we go into debt indefinitely in the future. At some time or other we must stop borrowing and start repaying.

- We can't take from the diligent and give to the indolent without decreasing the output of both.

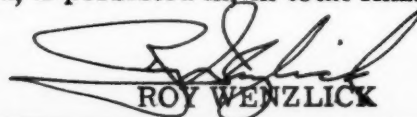
- We can't pay men for not working in a time of great demand for labor without decreasing output and increasing unit labor cost.

- We can't produce less per hour, work fewer hours, and have more.

- We can't increase rapidly the demand for any commodity, the supply of which cannot be rapidly increased, without increasing the price. Production of dwelling units since the war has been at capacity, limited primarily by the shortages of building materials and of trained men. Easing credit terms has increased demand for dwelling units without being able to increase the supply above the capacity of the industry to produce. The result has been an increase in price. One man has estimated that the GI loan guarantee has increased demand to the point that the price of housing has risen by practically the amount of the guarantee. If this be the case, the veteran has gained the doubtful advantage of being able to go more deeply into debt to out-bid non-veteran competitors for a home costing more than its value.

- We can't buy potatoes with the taxpayer's money to increase the price of potatoes to the taxpayer without increasing the cost of living and decreasing the amount the taxpayer has left to pay for the increased cost of living.

- Even though it is possible for a nation to raise its standard of living for a time by expanding its currency and credit, the increase comes from a redistribution of wealth and is possible only so long as there is a surplus of wealth to redistribute. It has been tried in almost every country on the earth in the last few thousand years and it has always ended, if persisted in, in total financial and economic collapse.



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